

VZCZCXRO4932  
RR RUEHDE RUEHDH RUEHDIR  
DE RUEHYN #0716/01 1111013  
ZNR UUUUU ZZH  
R 211013Z APR 09  
FM AMEMBASSY SANAA  
TO RUEHC/SECSTATE WASHDC 1697  
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE  
RUEHC/DEPT OF LABOR WASHDC

UNCLAS SECTION 01 OF 02 SANAA 000716

SIPDIS

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SUBJECT: ROYG CLAIMS IT IS COMMITTED TO REFORM, REMOVING  
FUEL SUBSIDIES

REF: 08 SANAA 256

¶1. SUMMARY: In a departure from the recent past, the ROYG has demonstrated a new commitment to economic reform by revealing plans to remove diesel subsidies and extending civil-service reform to the military and security services. The reform agenda is being considered at the highest levels of the ROYG, including the cabinet and the prime minister. Emerging in the aftermath of the third Post-Consultative Group (CG) meeting, the ROYG's new reform posture appears to be a direct result of united donor dissatisfaction. Continued donor coordination and pressure on the ROYG appears to be the main hope for pushing economic reform in Yemen. END SUMMARY.

FINALLY: THE ROYG WILLING TO REFORM?

¶2. Despite being either unwilling or unable to remove fuel subsidies in recent years, the ROYG appears newly determined to move toward economic reform by eliminating diesel subsidies. According to Deputy Prime Minister for Economic Affairs and Minister of Planning and International Cooperation Abdulkarim al-Arhabi, a plan with President Saleh's full support was submitted to the cabinet for debate on April 7. The plan involves three scenarios to remove fuel subsidies, each having different effects upon inflation and the poverty level. On April 13, Prime Minister Ali Mohammed Mujawar also reaffirmed the ROYG's commitment to reform, echoing Arhabi's words about ROYG plans to remove diesel subsidies and citing ROYG plans to extend civil-service reform to the military and security services. Press reports in the government media on April 18 indicated that a ROYG effort to issue biometric IDs to civil-service employees had identified 60,000 people earning two or more salaries and 28,000 retirees still drawing salaries.

¶3. Mujawar told a small group of representatives of key donor countries and institutions that, by the end of the month, he expects a ROYG decision on removing diesel subsidies. The latest reform effort also takes into consideration the negative impact of this decision. The ROYG plans to institute compensatory income support to the poorest segments of society along with an accompanying public awareness campaign. Familiar with the debate about removing diesel subsidies, Mujawar expressed concern about the inflationary impact and the public reaction. (NOTE: In 2005, an attempt to abolish diesel subsidies led to riots. END NOTE.) Mujawar indicated that the YR 240 billion in savings would be diverted to the Social Welfare Fund (SWF).

DONOR PRESSURE AS THE DRIVING FORCE

¶4. ROYG movement toward removing fuel subsidies emerged in response to intense donor pressure prior to, during, and

following the 3rd Post-Consultative Group (CG) meeting held in Sanaa on April 5. Western donors have consistently criticized the lack of progress in Yemen, particularly in the implementation of projects and coordination with the donor community. The April 5 meeting was one of the first instances when donors spoke to the ROYG publicly with a united voice. They urged the ROYG to use the Mid-Term Review process as an opportunity to identify priority reforms in the short-term and to take action. Arab donors are also showing greater interest in coordination with Western counterparts. Director General of External Economic Relations of the Gulf Cooperation Council (GCC) Dr. Abdel Aziz Abu Hamad Aluwaisheg said the GCC is interested in more regional cooperation. He said that the GCC has much to learn from Western donors in terms of sustainable development. (NOTE: GCC ambassadors resident in Sanaa play a direct role in supervising aid to Yemen and are an important but currently underutilized network for coordination with the greater donor community. One reason for this is their lack of participation in the established donor coordination process. END NOTE.)

COMMENT

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15. Debating the removal of subsidies in the cabinet and at the prime ministerial level is promising, but it is only the first step. The plan will be publicly unpopular, potentially destabilizing, and strongly resisted by other segments of the ROYG that benefit from the current system. Removing diesel subsidies is one part of a larger reform process, which must involve concrete action on reforms and greater coordination with the donor community. END COMMENT.

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